

The University of Chicago

MONETARY REFORM MOVEMENTS

Recent Plans and Panaceas

A PART OF A DISSERTATION SUBMITTED TO
THE FACULTY OF THE DIVISION OF THE
SOCIAL SCIENCES IN CANDIDACY FOR THE
DEGREE OF DOCTOR OF PHILOSOPHY

DEPARTMENT OF ECONOMICS

1939

By

JOSEPH EDWIN REEVE

Reprinted from

MONETARY REFORM MOVEMENTS

AMERICAN COUNCIL ON PUBLIC AFFAIRS

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The currency question, Disraeli is reported to have said, has made even more persons mad than love.

JACOB VINER.¹

Inflation is to economics what sex is to literature.

FORTUNE MAGAZINE.²

The broad and varied movement for monetary reform during the 1929-39 decade arose in direct response to the economic pressures of the period. It cannot be properly appraised, however, in economic terms alone. To many of the more ardent devotees their monetary beliefs were matters of religious-like faith, defended most vehemently on ethical rather than economic grounds. Others, often in their declining years, took up (or resumed) the study of monetary reform as a hobby, immersing themselves in the heresies of bygone eras and emerging to give to the waiting world some ingenious variation of earlier schemes as the one and only panacea for its economic ills.

More effective than these monetary messiahs and self-styled "experts on the money question," however, were the politically-minded leaders of important groups, who capitalized upon the widespread belief in the need for "more money" by urging measures of monetary expansion primarily beneficial to such minorities. Few economic questions were better suited to political discussion. America's long and varied history of monetary and banking experimentation and the numerous leaders of both parties who had participated in earlier struggles made it easy for demagogic orators to find more or less accurate historical backing for their appeals. The innumerable varieties of possible monetary action, moreover, permitted each reformer to have his own peculiar

¹ Quincy Wright, editor, *Gold and Monetary Stabilization* (Chicago: University of Chicago Press, 1932), p. 3.

² "Inflation Is When," *Fortune Magazine*, VIII (December 1933), 31.

scheme, and yet most of them could agree upon an appropriate compromise.

THE POPULAR AGITATION

Partly because of the great variety in the proposed methods of monetary expansion and in the immediate beneficiaries, monetary reform advocates came from every stratum of the population, but especially from the farmers and the small-business and professional groups. Largely "independent" or "self-employed," the latter groups apparently recognized more fully than other sectors of the economy their economic dependence upon the continued flow of purchasing power through the channels of trade. They had no unions and no personal incentive to urge increase or maintenance of wage rates as a method of assuring adequate purchasing power, since they needed more consumers to buy their goods and services and not more generous employers. By monetary measures they hoped to retain or restore the independence and relative security that was often the product of years of laborious thrift.

For similar reasons, agitation for monetary reform was nationwide,³ although it was particularly strong west of the Mississippi and reached its zenith in southern California. New England was apparently the most conservative in this respect, in spite of the many followers of Father Coughlin in the Catholic areas of Massachusetts. Magazines and trade journals of every type contained articles by monetary reform advocates and the correspondence columns of metropolitan newspapers attracted a flood of unsolicited schemes from less prominent heretics.

In the popular arena, the issues were highly personalized. International bankers operating in Wall Street, it was alleged, deliberately decreed deflation and induced or compelled their minions in Washington and among the smaller bankers to carry out their policies. Other attacks, reminiscent of the nineteenth century, were directed against the alleged British dumping of silver or their domination, through the Exchange Equalization Fund, over the exchange value of the dollar as the cause of our domestic ills. Engineers and others lamented the "usurious" interest rates levied by the "Money Trust" and the other limitations imposed by

³ For data on the similar outpouring of monetary panaceas in postwar and depression Germany, cf. Haber, *Untersuchungen über Irrtümer moderner Geldverbesser*, (cited in Keynes, *A Treatise on Money*, II, 216n.); J. C. Zulauf, *Some Aspects of the Present Economic Situation* (Florence, Italy, 1932).

high finance upon the economy of plenty otherwise believed possible. A monetary interpretation of history was frequently presented in which wars and business cycles as far back as the Roman Empire were explained wholly in terms of monetary developments. The *post hoc, ergo propter hoc* fallacy flourished; the "Crime of '73" was generally held responsible for the depression that followed; and deliberate actions of the Federal Reserve Board were similarly blamed for the collapses of 1920 and 1929 and the recession of 1937-38. Economists who thought otherwise were said to be the hirelings of the international bankers. Money itself was no mystery; proper money management was a simple matter and adoption of the right program would provide an immediate, almost overnight cure for economic distress.

THE ROLE OF ECONOMISTS

Economists as a group did not exercise much direct influence upon popular monetary reform sentiment, although the depression produced widespread discussion of monetary matters within their ranks. Disagreement over gold and banking policies to some extent nullified the views of individual leaders in the eyes of the public. A substantial majority at one time or another publicly favored expansion of public works construction or other types of deficit spending, but other groups in the population were probably much more influential in securing the eventual adoption of this program. With minor exceptions, economists opposed the issuance of paper money, as well as any and all silver programs, without apparent effect in the latter case upon policies.

The professional economist with the most direct influence upon monetary policy was the Cornell farm-management expert, George F. Warren, whose convincing graphs and charts, coupled with the ultimate correctness⁴ of his gloomy predictions on farm prices, brought him the backing of the politically powerful farm organizations. Supported by these groups and by the Committee for the Nation, he was able to sell his views to a pressure-ridden President, even though his basic theories were later subject to well-deserved strictures by fellow-economists. Even more influential, but less directly so, was the veteran stabilizationist, Irving Fisher. By his tireless efforts since the opening decades of the century, he had educated the general public to a new awareness of the

⁴ For reasons different from those advanced by Warren.

importance of price level fluctuations and had likewise acquired many influential disciples both within and without the profession. A third economist whose talents as a popularizer also gave him a wide public audience during the postwar period, as well as during the early thirties was William T. Foster, co-author with Waddill Catchings of many popular economic books and articles. An ardent advocate of deficit spending in times of depression, Foster was apparently one of the original sources of the unorthodox ideas later held by Federal Reserve Chairman Marriner S. Eccles.⁵

MONETARY REFORMERS IN WASHINGTON

Monetary proposals, whether popular or academic in their origins, had to run the gauntlet of the legislative and executive branches of the federal government before emerging into action. Accordingly Congress and the appropriate governmental departments, and especially the President, were subjected to a vigorous bombardment of correspondence, telegrams, visitations, speeches and other forms of pressure. In the first two years of the Roosevelt administration, for example, the Treasury Department alone received directly or by referral from the President communications from approximately 8,000 different monetary reform advocates. The telegram and letter-writing technique fostered by Coughlin from 1932 on brought equally copious instructions to congressmen from their constituents on how to vote on crucial issues, monetary and otherwise. Meanwhile, representatives of the farm organizations, the Committee for the Nation, the silver producers, and others pursued the usual lobbying tactics. Economists of all shades of monetary opinion appeared before Congressional committees to discuss the merits of pending monetary proposals; even more important, they played a significant part through their counsel in the leading monetary agencies in shaping the nature of such legislation.

Neither Congress nor the executive departments were entirely neutral on monetary issues. In both the Senate and the House, several monetary reform leaders held positions of influence which enabled them to secure more favorable consideration for monetary legislation; this was notably the case of the silverites in the Senate. Many lesser members of Congress filed bills for monetary action; between October 1929 and August 1935, for example,

⁵ It may be significant that of these three economists only Fisher had had much formal training in Economics.

more than 450 monetary reform bills were filed in the two houses.⁶ Within other governmental circles, monetary heretics like Federal Reserve Chairman Eccles (in the case of banking and fiscal legislation) and Treasury Counsel Herman Olliphant (in the case of silver legislation) were important sponsors of monetary action. Hence, however effective the popular pressure for "more money" and the counsel of economists for controlled expansion, Washington had its own contingent of monetary reformers whose views often prevailed in the actual drafting and enactment of legislation.

HISTORICAL ACHIEVEMENTS

The vigor of monetary reform agitation in general corresponded to the intensity of the depression, but with a significant time-lag until desperation and disillusionment with orthodox policies opened the door to views formerly shunned as disreputable. Although precursors of most major movements appeared on the scene early in the 1929-39 decade, the earliest to attract Congressional recognition were the silverites and the public works advocates. Supporters of the white metal forced the inclusion of discussions of the silver question on the agenda of the London Conference and the adoption of a domestic silver purchase policy upon the basis of an agreement arranged at the Conference. As a climax, by enactment of the Silver Purchase Act of 1934, they also secured the inauguration of foreign silver purchases with the stated objective of building up the silver stocks to one-quarter of the total monetary reserves. The unexpected international repercussions of this policy, however, together with the elusive nature of the ultimate goal in a period of enormous gold imports, in later years put the silverites on the defensive. When the showdown came in 1939, only the strong strategic position of the silver bloc in the Senate enabled them to prevent repeal of foreign purchases and to maintain the domestic silver subsidy.

The early public works movement, viewed in retrospect, was extremely modest in its objectives and was dominated more largely by the relief and employment aspects than by the need for stimulating purchasing power. Only President Hoover's veto prevented enactment of a fairly substantial program in 1932, and an even larger authorization was enacted in the first Roosevelt Congress. Probably not until June 1934 did deficit spending *per se* become

⁶ Cf. Representative Cross's statement: "We all know about the money business in Congress".

a conscious recovery policy of the administration; the long-run implications of deliberate deficits were not explicitly recognized by the administration until the recession of 1937-38 compelled reversal of previous attempts to balance the budget. By the time of the 1938 elections, however, a large section of the electorate had become skeptical of the economic virtues of deficits, and the subsequent attempts to obtain passage of the "Spend-Lend" bill met a striking Congressional rebuff.

In the winter of 1931-32, the powerful farm groups, seconded by numerous leading economists, had begun to urge drastic measures of expansion by the Federal Reserve System. Passage of the RFC and the Glass-Steagall bills and the ensuing open market purchases failed to satisfy this clamor. Accordingly, in May 1932, the House quickly passed the Goldsborough bill to make reflation and stabilization mandatory, only to be forestalled by the more conservative Senate. In later years, with the removal of deflationary pressure, banking reform took other directions, although price level stabilization continued an important objective. Movements for increased centralization of banking power were only in part satisfied by the Banking Act of 1935. Schemes to require 100 per cent reserves for demand deposits attracted widespread academic support. Nationalization of the commercial banking system would probably have been approved by the public in the dark days of 1933. More moderate measures of governmental banking, notably loans to pay off depositors of closed banks and to permit expansion of small business achieved partial recognition in the later legislation.

The simple but heretical schemes to print paper money came nearest to success in the Congressional votes on the Patman proposals to pay the bonus with greenbacks. Passed by the House in 1932 and 1934, and by both the Senate and the House in 1935, the Texan's bill failed to become law only because in the last instance the necessary two-thirds majority was lacking in the Senate to override the President's veto. The Frazier-Lemke bill to refinance farm loans with currency was defeated in the House when finally allowed to come to a vote in 1936. Otherwise, the chief "achievement" of the paper money advocates was to secure inclusion in the Thomas amendment of permission to the President, under certain conditions, to issue three billion dollars in greenbacks. More radical proposals for retirement of the govern-

ment debt with paper money, for government loans of currency at nominal interest rates, and for consumer dividends financed directly or indirectly with paper money never made significant headway. Fear of fiat money was stronger than hatred of the "Money Trust."

Last of the major elements of the monetary system to remain virtually unchallenged was the gold standard. Only after the reversal of the fall boomlet in 1932 and the nationwide suspension of banking activity in March 1933 was it politically feasible in many quarters even to discuss any substantial change in the traditional standard. Events thereafter, however, moved swiftly. Suspension of gold payments, rejection of international exchange stabilization, inauguration of gold purchases, and adoption of a "59-cent" dollar (with limited further powers of devaluation) all occurred within less than twelve months. Later, neither the advocates of further devaluation and a flexible gold price, nor those who favored return to the traditional gold standard scored any significant successes.

Like the attacks on the gold standard, the flood of miscellaneous schemes was especially concentrated in the winter of 1932-33 and succeeding years. This was particularly the case with anti-hoarding and scrip proposals. A succession of ingenious plans for social regeneration through monetary policy arose, chiefly in California, notably such movements as Technocracy, the Utopian Society, Sinclair's Epic Plan, the Townsend Old Age Revolving Pension movement, and the Ham and Eggs Plan. The Townsend Plan, in which monetary elements were relatively minor, achieved the greatest nationwide strength, but was decisively beaten in all Congressional votes. With the exception of Technocracy's brief hour on the stage, proposals for alternative types of monetary standards never attracted widespread popular support.

THE GENERAL MERITS OF MONETARY ACTION

The caliber of the general arguments advanced in behalf of monetary expansion was illustrated by the views of three eclectic monetary reform leaders, Father Coughlin, Senator Thomas, and Professor Fisher. All three believed that the volume of debt was excessive in comparison to the volume of active money. Creation of additional money (or activation of idle money) would cause prices to rise; restoration of the prosperity price level would mean restoration of prosperity.

Apart from this central thread, however, their doctrines differed widely both in nature and quality. To Fisher, bank deposits were the most important type of money. The priest and the Senator, on the other hand, considered them "imaginary" or "counterfeit" money; greenbacks, silver certificates, or gold and silver themselves were the only "real money". Fisher blamed the expansion and contraction of bank credit and the accompanying fluctuations in the volume of bank deposits upon the fractional reserve banking system and the failure to impose a specific price level mandate on the central authorities; ignorance, not malevolence, was the cause. Coughlin, however, declared that the "international bankers" had deliberately decreed depressions in order to acquire their borrowers' assets, since there was not enough "real money" to pay off all debts. Thomas blamed the Federal Reserve authorities for failing to perform their duty, both in preventing the deflation of the early thirties and in causing the "recession" of 1937-38.

Their proposals were similarly varied. Coughlin campaigned in 1932-33 for devaluation in order to increase the quantity of the "basic money" (gold) and to permit issuance of $2\frac{1}{2}$ times as much "taxless currency"; later, however, he declared that currency should not be limited by gold, but by the real wealth of the nation. Thomas likewise demanded currency expansion (although much smaller in amount than Coughlin favored); secondarily he urged gold-price adjustments to stimulate farm buying power.

Although he was the original promoter of the "compensated dollar", Fisher came to regard a flexible gold price chiefly as one of the prerequisites for stability in the internal price level. As background for his positive proposals, he described the genesis and development of all "great depressions" in terms of the interaction of over-indebtedness and deflation, which together caused cumulative contraction of bank deposits. Upon the basis of this theory—much more sophisticated than any presented by the priest or the Senator—he urged expansion in the volume of bank deposits coupled with stimulation of consumer buying through use of dated stamp money. Such measures would inaugurate a cumulative upward movement. As prices rose, costs would lag (not merely debts and taxes as Thomas and Coughlin emphasized), and profits would thus increase, causing expansion in bank credit, production and employment.

All three favored stabilization, but to the priest and the Senator

it was chiefly a slogan employed to reassure their audiences against fears of uncontrolled inflation. Fisher alone consistently advocated it in periods of inflation as well as deflation. In later years he crusaded for 100 per cent reserve requirements behind all demand deposits and other measures designed to centralize complete control over the volume of money in the hands of a single authority, together with mandatory instructions to that authority to maintain a specific price level.

Like these three eclectic leaders of the monetary reform movement, most monetary heretics deserve credit for recognizing that deflation is in part a monetary process, and that its continuance is neither inevitable nor necessarily a sound monetary policy.

The solutions they recommended, however, cannot be given equally blanket approval. Moreover, their exposition frequently omitted or slid over vital steps in the process of reflation, and the problems of controlling the rate of expansion and preventing subsequent reaction were rarely given serious treatment.

Each minority group liked to emphasize the dependence of the entire economic society upon the consumption expenditures of its members without much recognition that such interdependence was a two-way proposition, and that, whatever the benefits to the general welfare, alternative forms of expenditures might have proved more effective monetary stimulants, or otherwise more desirable. Many failed to reckon with the international repercussions of their programs, while some (for example, the devotees of gold and silver price boosting) placed undue emphasis upon the supposedly beneficial effects of their policies upon domestic price levels. There was a widespread tendency to stress the importance of debt burdens rather than debt maturities, and to overlook such largely comparable items as taxes, railway rates, and labor costs.

EVALUATION OF SPECIFIC MONETARY PROPOSALS

The most valid claims for currency expansion were probably the arguments that it would tend to lower interest rates and to secure an effective expansion in the volume of money. Neither was uniquely true of this type of monetary expansion, and both tended to overlook the unpredictable psychological effects of starting up the printing press, with the accompanying difficulties of controlling price levels and of minimizing international repercussions once dishoarding had begun. The emphasis upon the "costless" nature of paper money expansion compared to deficit financing was erroneous, since whatever one taxpayer saved another lost; in terms of real

costs, both paper money and deficit spending are almost costless in the depths of depression, and both involve the same alternative costs in periods of boom. The notion that the country needed more "real money" and less "debt-money" avoided the real issues—namely, the need for convertibility of the latter at all times into the former, and the possible need for a greater aggregate quantity of money.

The case for fiscal inflation was usually argued on a somewhat higher plane, partly because many professional economists were among the leaders of the movement. In general, the attacks upon the dogma of annual budget-balancing were well-founded. Despite the other merits of a "capital-budget," even this might not remove the need for deficits in the ordinary budget in times of severe depression. Cyclical budget-balancing is the logical, but difficult goal; although increases in the public debt are less dangerous than popularly supposed, a continual upward trend would in time create serious problems. The positive case for depression deficits is likewise on the whole defensible, since it is a relatively safe form of inflation, brings a needed expansion of consumer buying power by the use of otherwise idle cash balances or bank reserves, and tends to have positive though somewhat variable secondary effects. The case for a permanently high level of deficit spending, however, assumes, without sufficient reason, an inevitable inadequacy of investment outlets, which probably could be removed by institutional changes. Whether cyclical or secular expansion of public expenditures is pursued, many factors may serve to reinforce or nullify the benefits of the primary expansion, factors which leading advocates of deficit spending often failed to consider sufficiently. Finally, payments of relief and unemployment benefits, as well as revision of the tax structure, have a logical part to play in any program of cyclical deficit finance; business subsidies, however, are of questionable value.

The silverites presented chiefly the well-worn arguments of 1896 and earlier days dressed up for modern consumption. They exaggerated the benefits from higher silver prices to employment in the silver mines, as well as in mines in which silver was a by-product. They pointed to the "costless" nature of printing silver certificates to pay for the silver, and the seigniorage "profits" made by coining it at a higher monetary value, overlooking the inability to realize such profits by selling the silver. They made fantastic statements regarding the number of countries on the silver stand-

ard and the potential expansion in their purchasing power and in our exports from higher silver prices, failing to recognize that only silver-producing countries could materially expand their imports from such a source. On the other hand, they sometimes argued that costs of production in silver countries would tend to rise relative to American costs, but they avoided discussion of the dangerous impact upon the silver standard of the resulting loss of silver by these countries. Contrary to their notions, the silver standard area was too small a factor in the world commodity markets for higher silver prices to cause higher commodity prices, although for other reasons the silver price often tends to move in the same direction as other commodity prices. Acquisition of silver might indeed help to broaden the monetary base, but devaluation of gold is equally effective, and neither helps much directly in broadening the more important intermediate reserves behind bank deposits.

On the whole, the arguments for suspending the gold standard in 1933 appear valid, by hindsight, especially the claims that such action would help to halt deflation and would facilitate successful domestic expansion. Warren, in urging a higher gold price, however, over-emphasized the importance of gold supply and mistakenly thought that the price of gold influenced commodity prices directly rather than through changes in exchange rates. He, therefore overlooked the potential deflationary influence upon the world price level in terms of gold arising from devaluation by any important country. The Cornell professor, the farm groups, and the Committee for the Nation all exaggerated the need for restoring the level of basic commodity prices, and in particular the structure of prices existing prior to World War I, with the accompanying "normal" amount of farm purchasing power. Some but not all advocates of the eventual establishment of a gold bullion standard recognized that its achievement would have to await certain monetary and non-monetary reforms. Those who preferred to retain permanent flexibility in the price of gold emphasized the superior importance of internal stability to external stability, but were not always fully aware of the dangers of foreign retaliation to domestic depreciation. Intermediate schemes for "international collaboration" were the most realistic, although perhaps too likely to encourage upward pressure on prices.

Proposals to employ the banking system as an agency for monetary expansion are less likely to prove effective than measures of

credit control designed to prevent overexpansion or excessive liquidation of bank credit. Open market purchases and other measures to expand excess reserves, as experience clearly showed, are prerequisites but not guarantees of credit expansion. Expansion of rediscount eligibility and liberalization of the gold and collateral reserves required behind Federal Reserve notes are likewise merely defensive measures. Direct loans or guarantees of private loans by government agencies in borderline fields or in periods of emergency can bring about net expansion in bank deposits, but widespread extension of such practices, particularly government ownership and operation of the commercial banking system, would mean political control over the allocation of credit. Proposals for 100 per cent reserves behind demand deposits offer a relatively small net gain in the effectiveness of monetary control, which is more than offset by the economic and political difficulties of transition to such a traditional but revolutionary type of banking. Centralization of authority over monetary control is clearly desirable, but until the importance of deciding certain basic decisions on fiscal policy according to monetary criteria is generally accepted, complete unification is probably not attainable. Finally, the wide disagreement among competent economists regarding the proper rule for monetary policy and the unpredictable nature of future problems make it undesirable to limit the discretion of the monetary managers by requiring them either to stabilize a particular price level, or to adhere strictly to any other single objective guide.

Of the miscellaneous monetary proposals, the most suggestive were the more comprehensive anti-hoarding plans and the composite-commodity currency scheme sponsored by Benjamin Graham and his supporters. Both have the virtue of attacking the problem of the excessive desire for liquidity in time of depression. Both, however, involve serious administrative problems; even if these were surmounted, the results would be less satisfactory than their backers expected. Schemes for an auxiliary currency have some merit as a means of payment for an emergency economy. The results, however, are likely to be worth the direct and indirect costs only if political considerations exclude more effective and less cumbersome methods of stimulating the recovery of normal business operations. Finally, the world during the 1930 decade had become far too complex to go back to the idyllic days of barter and far too confused to go forward to an international currency.

